

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MOA SOLID WASTE MGMT AUTHORITY	County MONTMORENCY
Audit Date 12/31/04	Concurrence Date 6/1/05	Date Accountant Report Submitted to State 6/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following: "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 186 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P C			
Street Address P O BOX 149		City LEWISTON	State MI
Accountant Signature 		ZIP 49756	Date 6/16/05

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

**MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY**

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INDEPENDENT AUDITOR'S REPORT

June 1, 2005

Montmorency-Oscoda-Alpena
Solid Waste Management Authority
Board of Directors
Atlanta, Michigan 49709

I have audited the accompanying balance sheets of Montmorency-Oscoda-Alpena Solid Waste Management Authority, a component unit of Montmorency County, as of December 31, 2004 and 2003 and the related statements of revenue and expenses, changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montmorency-Oscoda-Alpena Solid Waste Management Authority at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying financial information listed as Supplemental Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Montmorency-Oscoda-Alpena Solid Waste Management Authority. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the component unit financial statements, taken as a whole.

As described in Note A, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of January 1, 2004.

The management's discussion and analysis on pages 2-4 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

THOMAS R. ZICK CPA, P.C.
Certified Public Accountant

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

MONTMORENCY-OSCODA-ALPENA SOLID WASTE MANAGEMENT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the Montmorency-Oscoda-Alpena Solid Waste Management authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2004. Please read it in conjunction with the financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

THE Authority's net assets were reported for the first time under GASB 34 as of December 31, 2004. There were no significant changes to the authority's financial statements other than changing the classification of retained earnings to net assets so comparative numbers for the year ended December 31, 2003 are shown using the GASB 34 format.

Net assets for the authority as a whole were reported at \$1,050,066 which was an increase of \$380,119 from 2003. Net assets are comprised of 100% business-type activities.

During the year, the authority's total expenses were \$1,409,072 while revenues from all sources totaled \$1,789,191 resulting in an increase in net assets of \$380,119.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer term view of the authority's finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's *net assets* and changes in them. You can think of the authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or *financial position*. Over time, *Increases or decreases* in the Authority's net assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's operating base and the condition of the authority's capital assets, to assess the *overall financial health* of the Authority.

In the Statement of Net Assets and the Statement of Revenues, Expenses and changes in Net Assets, we report all of the Authority's activities as business-type activities because the Authority charges a fee to users to help it cover the cost of services it provides.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Table I provides a summary of the Authority's net assets as of December 31, 2004 and 2003

Table 1 Net Assets		12/31/04	12/31/03
Current and other assets - including restricted		\$ 3,432,796	\$ 3,722,932
Capital assets, net of depreciation		<u>1,994,441</u>	<u>1,680,424</u>
Total Assets		<u>5,427,237</u>	<u>5,403,356</u>
Current liabilities		325,232	565,167
Noncurrent liabilities		<u>4,051,939</u>	<u>4,168,242</u>
Total Liabilities		<u>4,377,171</u>	<u>4,733,409</u>
Net Assets:			
Invested in capital assets (net of debt)		929,000	112,242
Unrestricted		<u>121,066</u>	<u>557,705</u>
Total Net Assets		<u>\$ 1,050,066</u>	<u>\$ 669,947</u>

Net Assets of the Authority's business-type activities were at \$1,050,066 and \$669,947 at December 31, 2004 and 2003 respectively. Unrestricted net assets – the part of net assets that could be used to finance day to day activities were at \$121,066 and \$557,705.

The results of this year's operations for the authority as a whole are reported in the Statement of Revenues, Expenses and changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2004 and 2003.

Table 2 Changes in Net Assets		12/31/04	12/31/03
Operating revenues:			
Service revenues		\$ 1,706,026	\$ 1,467,967
Operating expenses:			
Operations		1,358,447	1,406,152
Nonoperating Revenues (Expenses):			
Investment Income		83,165	78,222
Interest Expense		<u>(50,625)</u>	<u>(69,129)</u>
Total Nonoperating Revenues (\expenses)		32,540	9,093
Increase (decrease) in net assets		380,119	70,908
Net Assets, Beginning		<u>669,947</u>	<u>599,039</u>
Net Assets, Ending		<u>\$ 1,050,066</u>	<u>\$ 669,947</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Authority's total revenues were \$1,789,191 for 2004. The total cost of all programs and services was \$1,409,072 leaving an increase in net assets of \$380,119 as a result of fiscal year 2004 operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Authority had capital assets of \$7,438,338 at cost with accumulated depreciation of \$5,443,897 invested in a variety of capital assets including land, buildings, and other equipment.

Debt

The Authority has outstanding debt at December 31, 2004 in the form of bonds in the amount of \$490,000 and equipment installment loans totaling \$575,441. This was a decrease of \$503,741 from 2003.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the year ending December 31, 2005 there appears to be no major anticipated changes in operations although a new cell will not be constructed in 2005.

CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, users and creditors with a general overview of the authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority Administrator at Montmorency-Ocsoda-Alpena Solid Waste Management Authority, Atlanta, MI 49709.

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003
Current Assets:		
Cash demand and time deposits	\$ 25,408	\$ 155,645
Investments	1,407,770	1,668,468
Restricted cash	1,160,403	1,121,656
Restricted investments	644,508	592,857
Interest receivable	11,432	-
Prepaid expenses	4,004	7,544
Accounts receivable - (net of reserve for bad debts)	179,271	176,762
 Total Current Assets	 3,432,796	 3,722,932
 Property, Plant, and Equipment		
Land	164,561	164,561
Landfill improvements/buildings	5,793,659	5,069,280
Equipment	1,480,118	1,452,724
Less: accumulated depreciation	(5,443,897)	(5,006,141)
 Net Property, Plant, and Equipment	 1,994,441	 1,680,424
 Total Assets	 5,427,237	 5,403,356
 LIABILITIES AND FUND EQUITY		
Current Liabilities;		
Accounts payable	32,055	38,645
Accrued expenses	18,738	22,781
Current portion of long-term debt	274,439	503,741
 Total Current Liabilities	 325,232	 565,167
 Long-Term Liabilities:		
Installment notes payable	575,441	704,182
Bond payable	490,000	865,000
Less current portion	(274,439)	(503,741)
Estimated liability for landfill closure and postclosure care costs	3,260,937	3,102,801
 Total Long-Term Liabilities	 4,051,939	 4,168,242
 Total Liabilities	 4,377,171	 4,733,409
 Net Assets		
Retained Earnings:		
Invested in capital assets (net of related debt)	929,000	112,242
Unrestricted	121,066	557,705
 Net Assets	 \$ 1,050,066	 \$ 669,947

See Notes to Financial Statements

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2004 AND COMPARISON TO DECEMBER 31, 2003

	2004	2003
Operating Revenue:		
Charges for services	\$ 1,706,026	\$ 1,467,967
Total Operating Revenue	<u>1,706,026</u>	<u>1,467,967</u>
Operating Expenses:		
Salaries and wages	173,946	192,528
Fringe benefits	104,756	102,369
Other operating expenses	433,532	389,910
Supplies	50,321	56,387
Depreciation	437,756	447,529
Landfill closure and postclosure care costs	<u>158,136</u>	<u>217,429</u>
Total Operating Expenses	<u>1,358,447</u>	<u>1,406,152</u>
Operating Income	<u>347,579</u>	<u>61,815</u>
Nonoperating Revenue (Expenses):		
Interest revenue	83,165	78,222
Interest expense	<u>(50,625)</u>	<u>(69,129)</u>
Total Nonoperating Revenue (Expenses)	<u>32,540</u>	<u>9,093</u>
Increase (Decrease) in Net Assets	380,119	70,908
Total Net Assets - January 1	<u>669,947</u>	<u>599,039</u>
Total Net Assets - December 31	<u><u>\$ 1,050,066</u></u>	<u><u>\$ 669,947</u></u>

See Notes to Financial Statements

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004 AND COMPARISON TO DECEMBER 31, 2003

	2004	2003
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,703,517	\$ 1,532,126
Cash payments for goods and services	(490,443)	(442,797)
Cash payments to employees for services/fringes	(277,481)	(294,414)
Net Cash Provided (Used) by Operating Activities	<u>935,593</u>	<u>794,915</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	(751,773)	(391,629)
Proceeds from disposal of capital assets	-	143,236
Interest paid on equipment loans and bond debt	(52,350)	(64,862)
Principal paid on long-term debt	(503,741)	(575,802)
Proceeds from lease/purchase installment contracts	-	243,798
Proceeds from bonded debt	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,307,864)</u>	<u>(645,259)</u>
Cash Flows From Investing Activities:		
Interest on investments	71,734	104,378
Increase in restricted cash	(90,398)	(122,637)
Net Cash Provided (Used) by Investing Activities	<u>(18,664)</u>	<u>(18,259)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(390,935)	131,397
Cash and Cash Equivalents - Beginning of Year	<u>1,824,113</u>	<u>1,692,716</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,433,178</u></u>	<u><u>\$ 1,824,113</u></u>

See Notes to Financial Statements

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2004 AND COMPARISON TO DECEMBER 31, 2003

	<u>2004</u>	<u>2003</u>
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income	\$ 347,579	\$ 61,815
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	437,756	447,529
Change in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(2,509)	64,159
Increase (Decrease in Accounts Payable	(6,590)	3,500
Increase (Decrease in Accrued Liabilities	<u>159,357</u>	<u>217,912</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 935,593</u>	<u>\$ 794,915</u>

See Notes to Financial Statements

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The Montmorency-Oscoda-Alpena Solid Waste Management Authority is a component unit of Montmorency County and is reported in the County financial report as a discretely presented component unit.

The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality. The Authority operates a landfill.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees.

Basis of Presentation – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in statement No. 34., Basic Financial Statements – and Managements' discussion and Analysis – for State and Local Governments, issued June 1999. The Authority now follows the "business-type" activities reporting requirements of GASB No. 34. There was no impact to the net assets of the Authority in adopting GASB No. 34. The Authority has been a full accrual enterprise fund and therefore has prepared its financial fund statements on this basis since inception. The only changes were to add Managements' discussion and Analysis and changing retained earnings to net assets and increase in net assets.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. An example of an estimate would be the liability for landfill closure and post closure costs. Actual results could differ from these estimated amounts.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments with an original maturity of three months or less. It does not include restricted cash or restricted investments.

Property and Equipment - All property and equipment is valued at historical cost. Depreciation is computed using the straight-line method with the expense being charged against operations over their estimated useful lives.

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE B - CASH AND INVESTMENTS

The Authority's deposits and investments are shown in the accompanying balance sheet under the following classifications:

	<u>2004</u>	<u>2003</u>
Cash and time deposits	\$ 25,408	\$ 155,645
Investments	1,407,770	1,668,468
Restricted cash	1,160,403	1,121,656
Restricted Investments	<u>644,508</u>	<u>592,857</u>
Total	<u>\$ 3,238,089</u>	<u>\$ 3,538,626</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

	<u>2004</u>	<u>2003</u>
Bank deposits - with County Treasurer	\$ 1,185,311	\$ 1,276,901
Imprest cash	500	400
Investments	<u>2,052,278</u>	<u>2,261,325</u>
Total	<u>\$ 3,238,089</u>	<u>\$ 3,538,626</u>

Bank deposits - at County - The funds are under the control of the County Treasurer who has deposited those funds with a federally insured depository. It is impractical to determine the amount covered by FDIC Insurance, if any, as these funds are only a portion of the total County deposits.

Investments - The Authority is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus funds in U.S. Bonds and Notes, certain commercial paper, bankers acceptances, and mutual fund investment pools that are comprised of authorized investments. The County Treasurer invests those funds on behalf of the Authority. At December 31, 2004 all of the Authority investments consisted of a bank municipal investment fund not required to be categorized under GASB #3. At December 31, 2004 investments were categorized as follows:

Investment summary:	<u>2004</u>	<u>2003</u>
National City Bank Sweep Account	\$ 1,407,770	\$ 1,668,468
Categorized investments – U.S. government Securities	-0-	498,281
Dreyfus Mutual fund Money Market	<u>644,508</u>	<u>94,576</u>
Total Investments	<u>\$ 2,052,278</u>	<u>\$ 2,261,325</u>

Restricted Cash - The certificates of deposit amounting to \$1,160,403 and the investments in Dreyfus Mutual fund Money Market totaling \$644,508 were placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality, which assures that monitoring of the landfill site will have sufficient funds if needed in future years. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash amounts and all earnings must accrue to the escrow account. The Director must approve any disbursements from the account as well as the County Treasurer.

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE C - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to pension benefits described in Note D, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the county. During 2004 two individuals were eligible for these benefits and the total cost incurred approximated \$8,631. This was paid on behalf of former eligible Authority employees.

NOTE D - PROPERTY AND EQUIPMENT

A summary of the property, plant, and equipment of the Solid Waste Management Authority as of December 31, 2003 is as follows:

	Balance 1/1/04	Additions	Deletions	Balance 12/31/04
Land and landfill improvements	\$ 5,233,841	\$ 724,379	\$ -0-	\$ 5,958,220
Equipment	<u>1,452,724</u>	<u>27,394</u>	<u>-0-</u>	<u>1,480,118</u>
Total Costs	6,686,565	751,773	-0-	7,438,338
Less accumulated depreciation	<u>(5,006,141)</u>	<u>(437,756)</u>	<u>-0-</u>	<u>(5,443,897)</u>
Net Carrying amount	<u>\$ 1,680,424</u>	<u>\$ 314,017</u>	<u>\$ -0-</u>	<u>\$ 1,994,441</u>

Depreciable Life
Landfill Improvements based upon percentage filled
Equipment 7&10 years

Depreciation expense was \$437,756 for 2004 and \$447,529 for 2003.

NOTE E - PENSION PLAN

In previous years the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2003 and 2002 respectively were \$25,222 and \$23,970. In early 2003 the Authority separated their plan from Montmorency County but MERS had not done an actuarial valuation as of December 31, 2003. The December 31, 2003 actuarial report is used in this report. The December 31, 2004 report is not yet available from MERS.

Plan Description – The Authority participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE E - PENSION PLAN (CONTINUED)

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48817.

All full time Authority employees are eligible to participate in the system. Benefits vest after ten years of service. Authority employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating Authority employees are not required to contribute to the system. The Authority is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ -0-
Terminated employees not yet receiving benefits	-0-
Non-vested terminated employees	-0-
Current employees:	
Accumulated employee contributions	
including allocated investment income	-0-
Employer financed	<u>193,940</u>
Total Actuarial accrued liability	<u>193,940</u>

Net Assets Available for Benefits, at actuarial value	
(Market Value is \$102,855)	<u>112,643</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 81,297</u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (ARC)	\$ 23,784
Amortization factor used - Underfunded Liabilities (30 years)	0.053632

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE E - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The only year available is 2003 because the actuarial valuations for this entity separate from Montmorency County only began for the 2003. year.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (ARC)</u>	<u>Percentage Of ARC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 25,222	100%	\$ -0-

The Authority was required to contribute \$23,618 for the year ended December 31, 2004 (based upon Montmorency County valuation). Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2003	\$ 112,643	\$ 193,940	\$ 81,297	58.1%	\$ 159,821	50.9%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE F - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,260,937 as of December 31, 2004, which is based on all cells completed except for the current cell A - Phase II which is 73% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-two months remaining capacity. It is estimated that an additional \$147,540 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the current cell is expected to be filled to capacity. The estimated total current cost of the landfill closure and postclosure care \$3,408,477 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2004. However, the actual cost of closure and postclosure care

MONTMORENCY-OSCODA-ALPENA
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DECEMBER 31, 2004

NOTE F - CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)

may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The Authority has completed construction of an additional cell which began being filled in July of 2002 and was 73% filled according to engineer estimates at December 31, 2004.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The Authority feels it is in compliance with these requirements, and at December 31, 2004, certificates of deposit and other investments in the amount of \$1,804,911 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2004 was \$158,136.

NOTE G - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

	<u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>
1999 Bond	\$ 225,000	\$ -0-	\$ 225,000	\$ -0-
2002 Bond	640,000	-0-	150,000	490,000
Lease/Purchase	<u>704,182</u>	<u>-0-</u>	<u>128,741</u>	<u>575,441</u>
Total	<u>\$ 1,569,182</u>	<u>\$ -0-</u>	<u>\$ 503,741</u>	<u>\$ 1,065,441</u>

DESCRIPTION - Series 1999 General Obligation Limited Tax Bonds were issued to construct a cell addition to the landfill. This debt was repaid in 2004. Principal of \$225,000 and interest of \$5,344 was paid.

DESCRIPTION - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	2.50%	150,000	13,795	163,795
2006	2.80%	165,000	10,045	175,045
2007	3.10%	<u>175,000</u>	<u>5,425</u>	<u>180,425</u>
Total		<u>\$ 490,000</u>	<u>\$ 29,265</u>	<u>\$ 519,265</u>

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE G - LONG-TERM DEBT (CONTINUED)

DESCRIPTION - In 1999 the Authority purchased a D6 dozer and a 980G wheel loader on finance leases with Caterpillar Financial Services Corporation providing the financing. In 2001 a 627 Caterpillar scraper was purchased with G. E. Credit Company providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. In 2003 the 980G loader was traded on a 980GII loader with CAT Financial providing the lease/financing. The 980G11 contract calls for a balloon payment of \$126,000 on June 20, 2007. The Caterpillar leases call for final payment of \$1 to purchase the equipment after the sixty lease payments are paid. The G. E. Credit lease requires a balloon payment of \$110,000 after 72 monthly payments are made while the Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.75%.

<u>Interest Rates</u>	<u>Outstanding 12/31/04 Principal</u>	<u>Interest</u>
3.75/5.75	<u>\$ 575,441</u>	<u>\$ 49,842</u>
Total	<u>\$ 625,283</u>	

Equipment Lease/Purchase Annual Debt Service Requirements:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 124,439	\$ 130,127	\$ 320,875	\$ 575,441
Interest	<u>23,892</u>	<u>18,205</u>	<u>7,745</u>	<u>49,842</u>
Totals	<u>\$ 148,331</u>	<u>\$ 148,332</u>	<u>\$ 328,620</u>	<u>\$ 625,283</u>

Monthly payments on the equipment are as follows:

980GII wheel loader	\$ 3,031
627 scraper	<u>4,928</u>
	<u>\$ 7,959</u>

Annual payment on
Bomag compactor is:
\$ 52,827

Long-Term Debt Annual Debt Service Requirements

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 274,439	\$ 295,127	\$ 495,875	\$ 1,065,441
Interest	<u>37,687</u>	<u>28,250</u>	<u>13,170</u>	<u>79,107</u>
Total	<u>\$ 312,126</u>	<u>\$ 323,377</u>	<u>\$ 509,045</u>	<u>\$ 1,144,548</u>

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE G - LONG-TERM DEBT (CONTINUED)

	<u>Long-Term Debt Summary</u>	
	<u>2004</u>	<u>2003</u>
2002 General Obligation Limited Tax Bonds	\$ 490,000	\$ 640,000
1999 General Obligation Limited Tax Bonds	-0-	225,000
Installment Loans	<u>575,441</u>	<u>704,182</u>
Total Debt	1,065,441	1,569,182
Less Current Portion	<u>(274,439)</u>	<u>(503,741)</u>
Net Long-Term Debt	<u>\$ 791,002</u>	<u>\$1,065,441</u>

NOTE H - RISK MANAGEMENT

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2004, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

SUPPLEMENTAL INFORMATION

MONTMORENCY-OSCODA-ALPENA
SOLID WASTE MANAGEMENT AUTHORITY
COMPARATIVE SCHEDULE OF SUPPLIES AND OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>SUPPLIES</u>	
	2004	2003
Office supplies/postage/printing	\$ 2,897	\$ 2,861
Other supplies/uniforms	4,574	5,309
Diesel fuel	38,842	37,536
Heating fuel	1,700	2,400
Underground electric/gravel pit	2,308	8,281
Total Supplies	<u>\$ 50,321</u>	<u>\$ 56,387</u>

	<u>OTHER OPERATING EXPENSES</u>	
Legal fees and professional	\$ 9,185	\$ 5,861
Administrative fees	18,000	12,000
Alternative cover/clay capping	-	4,766
Engineering services/consultant	39,227	26,602
Ground water data costs	22,870	21,862
Leachate hauling	126,569	102,621
Leachate testing	1,926	1,175
Leachate treatment	92,002	76,618
Monitoring well testing	51,091	46,853
Repairs and maintenance	20,933	42,164
Communications	2,632	2,334
Liability insurance	16,360	11,823
Loud Township fee	14,428	14,921
Solid waste administration fee/surcharge fee/license fee	11,100	12,879
Travel/conferences/seminars	6,961	5,599
Other	238	1,832
Total Other Operating Expenses	<u>\$ 433,522</u>	<u>\$ 389,910</u>

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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FINANCIAL AUDIT COMMENTS

June 1, 2005

Montmorency-Oscoda-Alpena
Solid Waste Management Authority
Montmorency County, Courthouse Annex
Atlanta, Michigan, 49709

In planning and performing my audit of the component unit financial statements of Montmorency-Oscoda-Alpena Solid Waste Management Authority, for the year ended December 31, 2004, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

ACCOUNTS RECEIVABLE / BILLING STATEMENTS

The accounts receivable posting process, while working, appears to still need additional accounting controls. I would suggest that a control total be set up in the County Treasurer ledger. Monthly, sales billings would be posted through a journal entry and payments would be posted through the receipts procedure to accounts receivable. At month end, the control receivable balance would be reconciled to a detail listing by hauler. The Treasurer's office would maintain the control totals while the detail receivables would be maintained in the Authority office. This is a repeat comment from last year.

LONG-TERM DEBT

The long-term debt total at December 31, 2004 is \$1,065,441 which has decreased by \$503,741 over the prior year. This debt still includes \$490,000 plus interest on the bonds for cell-A phase II, which was 73% full at the end of last year (December 31, 2004). The debt has been dramatically reduced, and by self funding the construction of the most recent cell, this should increase the Authority cash flow over the next several years.

ACCOUNTING PROCEDURES

The Authority needs to improve in recording and processing certain accounting transactions. For example, during 2004 cell construction was charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

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Montmorency-Oscoda-Alpena
Solid Waste Management Authority
June 1, 2005

CASH DISBURSEMENT

During 2004 a check in excess of \$30,000 was written to a vendor in September. The vendor had not received the check so a duplicate was issued in October. The year end bank reconciliation still showed the original check as outstanding which had the effect of overstating recorded expenses by that amount. We corrected the error with an adjusting entry.

We can assist your personnel in understanding these entries.

This report is intended solely for the information and use of Montmorency-Oscoda-Alpena Solid Waste Management Authority, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA, P.C." in a cursive style.

THOMAS R. ZICK, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT